

DEFENSE CONTRACT MANAGEMENT COMMAND

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Progress Payment Analysis Analyst Refresher Training

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Progress Payment Analysis Analyst Refresher Training

Risk-based Approach Statement:

This presentation will discuss various areas of the analysis of progress payments. The depth and scope of any particular review should be based on regulatory requirements in the context of a risk-based management environment.

Progress Payment Analysis Training Objectives

- Identify & Describe Process Inputs
- Discuss Accounting, Regulatory & Contractual Framework of Analysis
- Detail Analysis Process & Techniques
- Mention Proposed Policy Changes

Progress Payment Analysis Process Inputs Identified- 1

- Price/Cost Analysis or Review Request (DLA Form 1542)
- Progress Payment Administration Record (DLA Form 325)
- Contractor's Request for Progress Payment (Standard Form 1443)
- Audit Report - Accounting System (DCAA)

Progress Payment

Analysis

Process Inputs

Identified - 2

- Disclosure Statement
- Post-award Financial Surveillance Report (DLA Form 1530)
- Physical Progress Report
- Supporting Documentation or
- Audit Report - Progress Payment (DCAA)

Process Inputs Described Price/Cost Analysis or Review Request (DLA Form 1542)

- ACO Initiated
- Timing of Review
 - Pre-payment (Higher Risk/Priority)
 - Post-payment (Lower Risk/Priority)
- Specific ACO Concerns

Process Inputs Described Progress Payment Administration Record (DLA Form 325)

- Accounting System Status? (FAR 32.503-3)
- Payment/Liquidation Rates? (DFARS 252.232-7004)
- First Article Approval? (FAR 52.209-3, ALT II)
- First Article Limitation Set? (FAR 32.501-5)

Process Inputs Described Contractor's Request for Progress Payment (Standard Form 1443)

- Cost-based Payment
- SF 1443 Required (FAR 32.503-1)
- Frequency: Once a Month (FAR 52.232-16)
- Suspension/Reduction for Fraud (FAR 32.006)
- Subject to False Claims Act/Mail Fraud Statute

Process Inputs Described Audit Report - Accounting System: 1

- Adequate Accounting System/Controls (FAR 32.503-3)
- System Review within 12 Months (FAR 32.503-3)
- DCAA Audit Codes
 - “17740” Pre-award Accounting System Survey
 - “26000” Accounting System & Controls (CPFF,FPIF,etc.)
 - “11070” Accounting System & Controls (FFP only)

Process Inputs Described Audit Report - Accounting System: 2

- System Description - A
 - Accounting Period?
 - Basis for Booking Costs (i.e. accrual)?
 - Frequency of Posting to General Ledger?
 - Frequency of Financial Statements?

Process Inputs Described Audit Report - Accounting System: 3

- System Description - B
 - Job Cost Accounting System?
 - Indirect Cost Pools & Allocation Bases?
 - Recording of Indirect Expenses & Billing to Projects?
 - Direct & Indirect Cost Charging Practices?

Process Inputs Described Disclosure Statement

- Detailed Description
 - Financial Accounting System
 - Cost Accounting System
- CAS-covered Contractors

Process Inputs Described Post-award Financial Surveillance Report (DLA Form 1530) - 1

- Annual Financial Statements
 - Balance Sheet
 - Income Statement
 - Cash-flow Statement
- Financial Analysis
- Dun & Bradstreet Reports

Process Inputs Described Post-award Financial Surveillance Report (DLA Form 1530) - 2

- Corporate or Personal Guarantees*
- Subordination Agreements*
- Special Bank Accounts or Loans*

* (FAR 32.501-5)

Process Inputs Described Physical Progress Report - 1

- Weighted Value Progress Payment Chart (DLA Form 1503)
 - Performance Element Summary Sheets (Form 1503a)
- Percentage of Physical Completion
 - Added Value Method, Weighted Value Technique
- Technical Analysis of Contractor's ETC

Process Inputs Described Physical Progress Report - 2

- Alternate Measures of Progress (EVMS)
 - C/SCSC Report with technical commentary
 - Validated Commercial EVMS Report with technical commentary

Process Inputs Described Supporting Documentation - 1

- Summary Cost Breakdown
- Subcontract Costs
- Material Costs
- Labor Costs



Process Inputs Described Supporting Documentation - 2

- ODC (Other Direct Costs)
- Indirect Costs
- ETC (Estimate to Complete)



Process Inputs Described Audit Report - Progress Payment

- Audit of Progress Payment is performed in accordance with the DCAA Contract Audit Manual Audit Program



Regulatory & Contractual Framework of Analysis

- Accounting Practice
 - GAAP
 - CAS
- Allowability (FAR 31)
 - Expressly Unallowable (i.e. contingency costs)
 - Allocable (i.e. common hardware charged direct)
 - Reasonable (i.e. commercial item from affiliate)

Regulatory & Contractual Framework of Analysis

- Paid v.s. Incurred Costs (FAR 52.232-16)
 - Paid costs only for large business
 - Incurred costs for small business
- Title Requirement (FAR 52.232-16)
 - Contractor must have obtained title to item
- First Article Approval
 - Allocable (FAR 52.209-3 or -4)
 - Limitation (FAR 32.501-5)

Analysis Process

- Summary Cost Breakdown
 - Review Cost Composition
 - Breakdown by Accounting Period
 - Total Equals Line 12a?
 - Total Equals Line 10? (Small Business)
 - Springboard to Specific Areas of query

Analysis Process

- Subcontract Costs
 - SF1443s from Subcontractors
 - Agree with Line 14?
 - Field Pricing Assistance?
 - Request for Cost Analysis
 - Request for Physical Progress Report

Analysis Process

Material Cost

Analysis - 1

- **Material Cost Report**
 - Equals Amount on Summary Cost Breakdown?
 - Composition of Costs?
 - Purchased Parts/Material
 - Inter-divisional transfers
 - Issued from stock
 - Work in-process (WIP)

Analysis Process

Material Cost

Analysis - 2

- Composition
 - Allocable in Terms of Kind
 - Allocable to First Article
- Purchased Material/Parts
 - Date Incurred? (Invoices Dates)
 - Date Title Obtained? (Shipment Dates)
 - Advanced Payments?
 - Bilateral Subcontract with FAR 52 Clause Required

Analysis Process

Material Cost

Analysis - 3

- Inter-divisional Transfers
 - Profit Pyramiding Prohibited (FAR 31.205-26)
 - Beware of Commercial Item Pricing
- Issued From Stock
 - Prior Make or Buy?
 - Method of Establishing Cost?

Analysis Process

Labor Cost Analysis

- Labor Cost Report
 - Equals Amount on Summary Cost Breakdown
 - Composition of Costs? (Mfg; Assy & Test; Eng)
 - Date Labor Paid/Accrued
 - Exempt Personnel Charged Direct & Indirect
 - Allocability
 - Labor Classification
 - First Article Allocable

Analysis Process

Other Direct Cost

- Travel Costs (FAR 31.205-46)
- Consultant Costs (FAR 31.205-33)
- Special Tooling & Test Equipment (FAR 31.205-40)

Analysis Process

Indirect Costs

Analysis

- DCAA Audited Rates?
- ACO Billing Rates?
- FPRA/FPRR rates?
- Adjusted for YTD Actuals?

Analysis Process

Audit Report - Progress

Payment

- DCAA's Audit Program includes the Administration of the Clause in Terms of the Title Requirement
- Requests for Audit Reports May Address this Important Contractual Requirement

Analysis Process & Techniques Estimate To Complete (ETC)

- Contractor's ETC
 - Revise every 6 mos. (SF1443 Instructions)
 - Review Technical Analysis of ETC
 - $IC + ETC = EAC$ (On Revised ETC Date)
 - $EAC - IC = ETC$ (Used for Next 5 Months)

Analysis Process & Techniques Estimate To Complete (ETC)

- Government's Independent ETC
 - Direct Costs (Technical Analysis of ETC)
 - Plus Indirect Costs

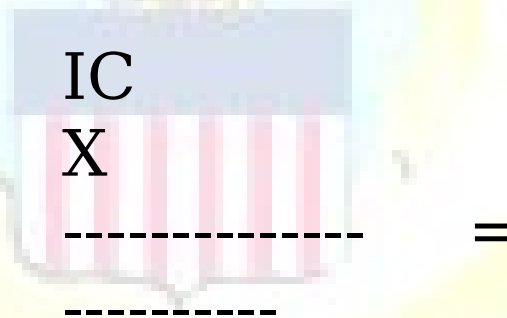
Analysis Process & Techniques

Estimate At Completion (EAC)

- Government's Independent
EAC

- IC + Independent ETC = EAC

- Proportion Method



% Complete
100%

$$X = EAC$$

Analysis Process & Techniques Loss Ratio & Application

$$\frac{\text{Contract Price}}{\text{EAC}} = < 1.0 \text{ (Loss Ratio)}$$

Apply to Line 11, Complete Normal Calculation

Analysis Process & Techniques Fair Value Test

- Fair Value of Undelivered Work
 - FV > Unliquidated Progress (FAR52.232-1)
 - Payments Collateral for Government “Loan”

Analysis Process & Techniques Fair Value Test

- Fair Value Defined (FAR 32.503-6)
 - Price of Undelivered Work - ETC = FV or
 - IC of Undelivered Work + 20c (14e) = FV
- Unliquidated Progress Payments include Instant Progress Payment Amount

Analysis Process & Techniques Review Models

- Practical Demonstration
 - “Gionfriddo” Model (3/5/1999)
 - Other Models are available.



Proposed Policy Changes

- Federal Register, February 10, 1999
 - Increase threshold from \$1M to \$2M for LB
 - Establish \$2,500 minimum per payment
 - Eliminate “Paid Cost Rule” for Large Business
 - Emphasize preference for Performance-Based Payments over Progress Payments
 - Permit subcontract PBPs/Commercial Financing

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* Additional Comments or Questions
* Thank You for Your Attention!

